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Regis Corporation (NASDAQ:[RGS](#)) Q1 2025 Earnings Conference Call November 6, 2024 8:30 AM ET

Company Participants

Kersten Zupfer - EVP and Chief Financial Officer

Matthew Doctor - President & Chief Executive Officer

Conference Call Participants

Kersten Zupfer

Good morning, and thank you for joining the Regis First Quarter 2025 Earnings Conference Call. I am your host, Kersten Zupfer, Executive Vice President and Chief Financial Officer. I am joined today by our President and Chief Executive Officer, Matthew Doctor. All participants are in a listen-only mode and this conference is being recorded.

I would like to remind everyone that the language on forward-looking statements included in our earnings release and 8-K filing also apply to our comments made on the call today. These documents can be found on our website, www.regiscorp.com/investor-relations, along with a reconciliation of any non-GAAP financial measures mentioned on today's call with their corresponding GAAP measures.

With that, I will now turn the call over to Matt Doctor.

Matthew Doctor

Thank you, and good morning, everyone. On today's call, I will go over the financial highlights for the quarter and provide updates on our key initiatives.

Regarding our first quarter results, I'd say the headline here is our results reflect the stabilization of our business as we continue to put in the time, effort and investment required to position Regis for growth. Our adjusted results are largely in line with the prior year. And our GAAP financials came in slightly lower, driven by largely onetime expenses related to a severance accrual from the recent reorganization done in August as well as an outsized increase in stock-based compensation expense due to the movement in our stock price over the quarter.

Same-store sales in Q1 was down 1.1% versus the prior year's quarter. As I mentioned on prior calls, over the last few years, price has largely driven the sales comp gains. And it is the decade-plus traffic trends we are most focused on addressing, not through just marketing but operations as well. We will not be satisfied until we reverse these trends and drive profitable traffic back to our franchisee salons. We want to be extra cognizant of not relying on price much further, as we continue to work on solidifying our value proposition. Our adjusted EBITDA for the quarter was \$7.6 million versus \$8.1 million a year ago. The 40% adjusted EBITDA margins during the quarter represents a two percentage point margin expansion versus the prior year.

The slight decline in EBITDA, adjusted EBITDA dollars is driven by lower store counts and some favorable timing of expenses and accrual reversals that occurred in the prior year. Our adjusted earnings per share for the quarter was \$0.93 versus \$0.71 in the prior year. Reported GAAP earnings per share was a loss of \$0.36 versus earnings per share of \$0.51 in the prior year. As I mentioned in my earlier comments, the decline versus the prior year from a GAAP perspective was driven in part by the \$2.3 million severance accrual during the quarter as well as a stock-based compensation adjustment, both of which get added back to our adjusted results.

And one final note on our adjusted results. We did make a change to the add backs that we are making to bridge the GAAP financials to our adjusted results. Most notably, adjusted EBITDA, G&A and net income, that Kersten will detail in her remarks.

Turning to our business strategies and initiatives. I am really excited to be leading Regis during this pivotal time. And I strongly believe that the work we are putting in now is critical to setting our brands and franchisees up for long-term success. I believe the work streams we have going are the right ones. And while they are taking time to manifest and get right, which is due to the number of factors including the need of driving habit changes, the cadence of our business that is roughly in the range of 6x to 12x per year per prospective guests as well as a large-scale change management occurring within our system, we're on the right track and have a path to grow our franchisee sales and profitability.

As I mentioned on prior calls, we have significant opportunity to drive traffic back into our salons and ensure our franchisees are well positioned to attract, retain and train great stylists to provide a superior guest experience. And to do this, we are focused on our key tactical initiatives that fall into two main buckets: increased operational rigor and optimizing our digital platform. Regarding our increased focus on operational rigor. The main goal here is ensuring that we, as a system, get back to basics and are delivering above and beyond guest expectations when visiting any of our salon brands which means a warm, welcoming environment, friendly service and of course, high-quality hair service.

These are nonnegotiable, and we must strive to get this right every time. Our vehicle to drive this effort has been the launch of our brand excellence standards that define the proper end-to-end guest experience at the salon level. After almost a year of planning in our Supercuts brand, we've now defined the standards, launched the expectations and reference guides to our franchisees, spent this past quarter conducting pilot visits. And now, as of two days ago on November 4, we have fully launched the first wave of excellence visits across the entire Supercuts brand. This represents one example of getting a big project fully integrated into our system during the quarter.

The first wave of visits will be completed in January 2025, and we'll have detailed insights and data on our salon environments that we have not had since becoming franchisor. The visits and supporting data will be a great operational tool for us and our franchisees, in which we will both have ongoing visibility into the current salon environment state and will enable us to both actively monitor the business and act on deficiencies in tandem.

The ongoing cadence of visitation will be twice per year, and we'll be sure to celebrate those salons that are performing best while salons that consistently show up as bottom performers may potentially receive additional visits beyond the standard two throughout the year. And to provide some examples of what type of things we are focused on monitoring as outcomes of these standards. First and foremost, much more uniformity in image, cleanliness and upkeep of salons. Second, consistent service menus, ensuring all salons are offering the same baseline of required set of hair services to further build trust with our guests versus the varying service menus that exist today.

Third, and importantly, strengthen connections between the stylist and guests through increased wait time transparency, top-notch consultations, the upkeep of personalized guest notes, personalized product recommendations, the consistent delivery of high-value touches like our hot towel refresher in the Supercuts brand and ultimately ensuring full satisfaction before guests leave the chair.

The team and I are very excited to be able to start utilizing this data and establishing a baseline of performance. Again, these are insights and data that we have not had access to before. In the beginning of calendar 2025, we'll be able to correlate visit results with salon performance and start performing a more complete view of what drives key metrics and become more in depth as an organization at predicting sales.

We can then prioritize addressing the top items that matter most across the salons that have a combination of the most opportunity and the largest impact to our franchisees businesses as well as gather and share our best practices to further move the needle. While this is currently being rolled out in the Supercuts brand, we are progressing the excellent standards for our other brands with the expectation to have those launched in mid-calendar 2025.

And beyond just the salon visits, we're also looking at ways to implement new guest satisfaction measurements to more actively monitor service and quality. I also want to be clear here that our role of franchisor is not strictly monitoring but also ensuring the right tools and systems of support are in place. And while we've made some progress here, quite frankly, we know we have a ways to go to continue to minimize friction and make life easier for our franchisees, given the large scale changes we've been implementing over the last few years.

By complementing these excellent standards efforts with our education programs, we will have a powerful ecosystem of data and tools to ensure we're executing on our brand promises of that warm welcoming environment and superior service and quality.

Turning to our digital efforts. While excellence standards in education are aimed at providing the right in-salon experience through addressing the environment, service and quality, our digital efforts bookend the in-salon experience by enabling convenience and driving guests to our salons and taking over post the visit by delivering value and benefits to guests in order to drive incremental frequency.

The first critical step towards driving an optimized digital experience is cultivating active digital relationships with our guests. We achieved a major milestone in unlocking our ability to do so last quarter by completing the rollout of the Zenoti point-of-sale system across our salons. And I'm pleased to complement that effort with another major milestone regarding the full rollout of our Supercuts Rewards loyalty program across all Supercuts salons this past October. In keeping with that theme of uniformity and trust across our brands, this marks the first time our entire brand is operating the same loyalty program across the network.

And combined with Zenoti, our ongoing CRM efforts and assets like our websites and app, we will now have a strong base of current ingredients to further cultivate and strengthen our relationships with guests. In just three weeks post launch, loyalty member sales are up to 20% of total sales for the 1,250 Supercuts salons that went live in our second and final wave.

For reference, the pilot program salons that have been holding steady at well above 50% loyalty member sales, a goal that we are shooting for and are actively working to grow the current member base. And as we grow our current member base, we have a lot of opportunity to further evolve and optimize the program, providing additional member-only benefits, as well as take the learnings from this launch and carrying them over to our other brands.

To give a little more sense of the significant opportunity we have here, taking just the Supercuts brand alone, we've had a little over 9 million unique guests that visit Supercut salons over the last 12 months, 25% of all visits were through digital check-ins and of which 35% of those digital check-ins are done through the app. So call it a little over 800,000 app check-ins out of over 9 million visits.

Additionally, 90% of online check-ins were made without an account. And I can keep on going, but the point is there's a strong opportunity to not only engage more with those we have an active digital relationship with, but also tap into the vast white space through converting the majority of guests, which we do not. To this end, in October, we transitioned all remaining walk-in-only salons to support online check-in, thus achieving full online availability across Supercuts. The key now is to continue capturing usable guest data between in-salon and digital channels, incentivize account creation and digital engagement and increase our digital touch points through e-mail, SMS and in-app communications.

Our loyalty program is yet another tool to be utilized to drive incremental frequency, and it is now squarely on us to ensure that we are continuously working to improve our websites, our apps, Zenoti functionality and digital programs, integrating them into a cohesive platform to create a flywheel effect. Attracting new guests to our salons through digital programs, delivering an outstanding experience guided by excellence standards and using CRM and loyalty to encourage repeat visits.

And just as we have work to do to provide the proper tools and support systems to our franchisees regarding operational rigor, we have work to do to continue managing our technology partners and platforms to continue to remove friction and pain points for our franchisees, their salon managers and stylists to more effectively run and manage their business.

One more topic I want to touch on before wrapping up. I mentioned on the last call, this notion of finally having the opportunity to take a longer term view and forming a vision that is necessary to drive business transformation with the refinancing behind us. These are not just words, but an effort we have taken action on as an organization. While the initiatives I mentioned earlier are important tactical table stakes items, we have paused on rolling out any other major changes and adding further initiatives to the system until we align with our franchisees on how this all ladders up to a broader winning strategy for the future.

We've engaged another great outside resource to partner with us and facilitate the vision and strategy planning in our Supercuts brand alongside of our franchisees. We've been listening and gathering critical feedback over the last month from over a 100 conversations representing most of the system to ensure full collaboration and buy-in as we align on the next phase of top priorities and the proper cadence required to create value through growing sales and profitability for our franchisees. And it's ultimately these aligned on initiatives that we will integrate into our current priorities discussed here.

Before turning it over to Kersten, let me conclude by stating again how excited I am to be going on offense with our renewed capital structure. Thank you to the entire Regis employee base and our passionate, dedicated franchisees and their field-based teams for driving our major initiatives forward and for all of the work put in day in, day out in the business. We are actively working on a number of initiatives to drive growth and are committed to exploring everything that will benefit our franchisee partners to drive performance and value creation.

I also want to reiterate my comments from our last call that even with continued net closures and slightly softer sales due to a combination of the macro environment, and the work required to be done in our business, we believe we are set up to continue to drive adjusted EBITDA growth in fiscal 2025 as well as our earnings per share and cash flow. I look forward to keeping you apprised of our progress as we move forward.

And now I will turn it over to Kersten for a detailed review of the Q1 financials. Kersten?

Kersten Zupfer

Thanks, Matt. Total first quarter revenues were \$46.1 million, a decline of \$7.3 million from the prior year. This revenue decline was expected and relates primarily to a reduction in franchise rental income and advertising fund revenue, which are a gross up of revenue and expense and have no impact on profitability. Royalty and fee revenue of \$18 million, which represents our core business revenue was down \$1.2 million versus the prior year's first quarter due to the number of salon closures over the course of the last 12 months.

Another reflection of our revenue performance is system-wide same-store sales, which declined 1.1% in the quarter. We closed a net 41 franchise locations and eight company-owned locations in the first quarter of fiscal year 2025. The 41 net franchise closures in the quarter had an average trailing 12-month sales volume of \$140,000, this compares to a top quartile salon average sales volume over the same period of \$460,000, with top quartile sales 3.3x those of the closure salons, this demonstrates the performance we are seeing possible in our system as well as how large the gap of underperformance is for these closure salons.

We have been clear on our calls that this is a trend that we've seen, and we'll continue to see. However, I wanted to provide some additional color and context as to what has been occurring and why this will slow in the coming years. The large scale closures, which we have experienced over the past fiscal years have largely been related to the timing of salon shifts from corporate to franchise. Beginning in 2017 and with leases generally in five year increments, we're seeing the waves of closures line up with those franchising efforts, with those transitioned in 2017 driving 2022 closures; 2018, driving 2023; 2019, 2024 and 2020 now driving the 2025 closures.

Given the bulk of the transitions completed roughly during this timeframe, we expect calendar 2025 to be the last year of closures in the order of magnitude that we've been seeing. Now this is not to say the trend will suddenly reverse. However, the pace should slow down in years ahead. Additionally, we have demonstrated an ability to maintain and grow profitability despite our lower base, and we expect to be able to continue managing to the same outcomes with a smaller, high performing footprint as we ultimately get back on the path to sales and unit count growth.

We posted GAAP operating income of \$2.1 million in the first quarter compared to \$7.4 million in the prior year quarter. The year-over-year decrease in GAAP operating income of \$5.3 million was driven by lower core business revenue, increased G&A expense related to severance expense of \$2.3 million, year-over-year increased stock-based compensation expense of \$800,000 and a rent benefit of \$600,000 received in the prior year that did not reoccur. We continue to produce operating profit each quarter, and we expect that trend to continue.

We reported GAAP net loss of \$900,000 and diluted loss per share of \$0.36 per share in the first quarter compared to income of \$1.2 million and diluted income per share of \$0.51 per share a year ago, driven by decreases in operating income discussed above, partially offset by reduced interest expense.

Now let's turn to our adjusted results. As Matt mentioned, we did make a change to how we are calculating our adjusted results. Beginning this quarter, our adjusted results exclude stock-based compensation expense. All adjusted results in the current year and prior years have been adjusted to reflect this presentation. We believe our adjusted results are a more representative view of the business. Reconciliations of our GAAP results to our adjusted non-GAAP results can be found in our press release.

On an adjusted basis, First quarter consolidated EBITDA was \$7.6 million compared to \$8.1 million in the prior year's quarter. The \$500,000 decline was primarily due to lower franchise revenue; prior year benefit in rent that did not reoccur of \$600,000, partly offset by sublease revenue associated with the corporate office space that we subleased over the course of the last year.

Our adjusted G&A was \$10 million, essentially flat to the prior year period. With continued focus on our corporate G&A and the recent reorganization in August, we continue to expect our fiscal year 2025 G&A to be in the range of \$39.5 million and our run rate G&A to be closer to \$38 million. The run rate range represents close to \$5.5 million of savings versus fiscal year 2024, while the \$39.5 million represents additional investments in our business that offset savings to the extent we see opportunity to invest further in our initiatives, this could change.

Our core franchise business achieved adjusted EBITDA of \$8 million in the quarter, a \$600,000 decrease compared to \$8.6 million in the prior year quarter. This decline is primarily explained by the same items discussed for the consolidated adjusted EBITDA. On an adjusted EBITDA basis, our company-owned segment reported a loss of \$300,000 for the quarter, an improvement of \$200,000 from the same quarter last year, primarily related to the closure of loss generating company-owned salons over the last 12 months. As of September 30th, we had nine company-owned locations.

During the three months ended September 30th, we used \$1.3 million of cash from operations, which is an improvement of \$1.5 million from the prior year three month period, primarily due to less cash used for working capital. As I mentioned on the call last quarter, we expected a use of cash in the first quarter due to incentive compensation payments and other scheduled payments like insurance that get paid in the first quarter. Additionally, we replenished our inventory of fixtures to aid franchisees in the large scale SmartStyle remodels that are occurring. We continue to believe that we will generate cash in the second quarter and for the remainder of fiscal year 2025.

Additionally, in the first quarter, we received approximately \$950,000 of proceeds related to Zenoti migrations, and we continue to expect additional proceeds of approximately \$7.5 million during the second fiscal quarter. As a reminder, under our new financing arrangement, these proceeds will stay in the business, and we are not required to pay debt down as we were under our previous financing arrangement.

Turning to liquidity. As of September 30th, we had \$21.9 million of available liquidity, including \$15.7 million of available revolver capacity and \$6.3 million of cash. As of September 30, 2024, our debt outstanding, excluding deferred financing fees and the value of the warrants plus the accrued paid-in-kind interest was \$110.4 million.

As a reminder, due to accounting standards, our balance sheet shows approximately \$285 million of operating lease liabilities related to liabilities associated with subleasing our salons to our franchisees over the entire life of their respective leases. These liabilities are serviced by our franchisees and should not be factored into Regis' debt position so long as the franchisees continue to pay their obligations as they have been. These liabilities have decreased approximately \$309 million over the last three years due to the reduction in salon count as well as Regis moving off franchise leases.

Regis is solely responsible for lease liabilities for any corporate office space, net of subleases and the remaining company-owned salons, the total of which is approximately \$4.6 million.

This concludes my prepared remarks. I would like to thank you for your continued support and interest in Regis. Please feel free to reach out to investorrelations@regiscorp.com to discuss any questions related to the business or quarterly results.

With that, I will wrap up the Regis first quarter fiscal year 2025 earnings call.

Question-and-Answer Session

End of Q&A

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